



WEEKLY ECONOMIC COMMENTARY



31 Mar 2025 | **Westpac Economics Team** | westpac.co.nz/economics | economics@westpac.co.nz

Gaining ground

With some big economic news in recent weeks, **we've updated our forecasts for the New Zealand economy**. Overall, we see a picture of an improving economy late last year that's continued into 2025. Growth remains narrowly focused around the external sector and tourism and should broaden as we go through 2025 as interest rate cuts filter through. Inflation looks firmer in the short term but should still peak close to 2.5% and remain around there over all of 2025. Two further OCR cuts look programmed in by the RBNZ but the case for more beyond that has weakened. Global developments continue to present significant albeit difficult to quantify risks.

Economic growth.

Our short-term growth outlook is only marginally upgraded since our last major forecast update in February. We now see annual GDP growth for 2025 at 2.6% vs 2.5% previously. There is potential for significant quarterly volatility in GDP in the next year, and we will be looking more closely at that in May. But the key difference in view is that we were pleasantly surprised that we saw growth in Q4 2024. This increases our confidence that the growth that we forecast for 2025 is more likely than not.

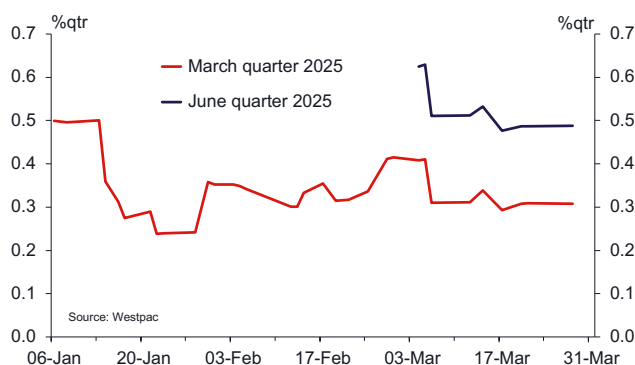
Nevertheless, at this stage growth is narrowly focused on the external and tourism driven sectors. This helps explain the perception gap we currently see where many businesses are saying they don't see growth, particularly in the urban areas. There are significant regional and sectoral differences in growth which should balance out as time goes on all going well.

Interest sensitive sectors are yet to feel the push from lower interest rates. Growth in the December quarter only had the benefit of one 25 bp cut for the full quarter even though the OCR was cut a further 100 bp over Q4. The transmission lags to growth are longer than that. Hence what we saw in Q4 was a more solid starting point

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	→
NZ economy	↗	↗	↑
Inflation	→	→	↗
2 year swap	→	→	↗
10 year swap	→	→	↗
NZD/USD	→	↘	↘
NZD/AUD	↗	→	↘

Westpac GDP nowcasts



Key data and event outlook

Date	Event
1 Apr 25	RBA Monetary Policy Decision
3 Apr 25	Govt financial statements, 8 months to February
8 Apr 25	NZIER QSBO Business Survey, March quarter
9 Apr 25	RBNZ OCR Review
15 Apr 25	NZ Selected price indexes, March
17 Apr 25	NZ CPI, March quarter
7 May 25	Labour market statistics, March quarter
7 May 25	RBNZ Financial Stability Report
7 May 25	FOMC Meeting (Announced 8 May NZT)
8 May 25	Govt financial statements, 9 months to March
15 May 25	NZ Selected price indexes, April

for growth over 2025 (and likely further evidence that the large falls in GDP in the middle of 2024 were overstated at least somewhat).

It is fair to say though that the recovery is still tentative and underlying growth remains decidedly below trend. Our Nowcast estimates (previous page) show the picture quite clearly. It's more likely that activity in underlying terms was fairly flat in Q4 but now turning modestly positive in Q1 2025. We have fine-tuned our house price view to reflect the still early stage of the recovery. We see 6.5% growth in 2025 but 6.2% in 2026 as stronger population growth joins interest rates in supporting house prices.

In the medium term we now see a brighter picture for potential and actual growth now that population growth looks to be bottoming out at a higher level than previously thought. This is adding a little to 2025 growth but will have a larger impact in 2026 and beyond.

The external sector.

The external sector looks interesting. Both export incomes and imports are larger than expected. We see some encouraging signs of growth in services exports - these will be key to achieving the Government's very ambitious goal of doubling exports in a decade given the ecological constraints on agriculture exports. The current account looks set to improve even though the medium-term picture continues to look weak - not least because that structural fiscal deficit might not be erased for a long time.

Fiscal policy and the debt programme.

While tax revenues are running slightly above the Half Year Economic and Fiscal Update (HYEFU) forecast and spending slightly behind forecast, the Minister of Finance has indicated that she does not expect to reveal an improvement in the fiscal outlook in Budget 2025. We remain comfortable with our previous forecasts but will be looking into the downside risks given new spending priorities such as defence and capital spending. Hence, we continue to see eventual upside risks to the Government borrowing programme.

Inflation.

Inflation looks at least as robust as previously thought. We have raised our near-term inflation forecast, reflecting the strong food prices that are driving the growth in the external sector. The peak in inflation is no higher but we do think it will persist for all of 2025 now.

Interest and exchange rates.

Our view on interest rates is unchanged and we remain more hawkish than many market participants and the

RBNZ. The recent data is a subtle push in the direction of this view as while the next two rate cuts look odds on, the RBNZ's tentative last cut in late 2025 looks even more speculative now.

Our financial forecasts are unchanged. Given the downside risks to trade it's looks more likely than not that the exchange rate will remain weak and could weaken a lot more in a downside scenario. That's as it should be as it's the role of the exchange rate to buffer global shocks. Lowering interest rates to boost asset prices to offset a loss in competitiveness from tariffs would likely be fruitless.

We suspect longer term interest rates are close to as low as they are going to be now that the end of the policy easing cycle is near. The yield curve continues to support that view as it looks rather like markets see a neutral OCR closer to 4% than 3%.

Risks and areas of focus ahead of our May Economic Overview.

There are lots of risks to the outlook that we will review in May when we complete our next full forecast round. Key will be a more definitive assessment of how tariffs will impact the outlook. We hope to know more on how important these will be by then. We also need to consider both the upside and downside risks to medium-term growth. Will the narrowly focused recovery build into something broader and more enduring? Will the external sector sustain its recent impressive gains, perhaps because tariffs aren't that bad for Australasia in the end or perhaps because fiscal easing in China, Europe and the US provides an offset?

For now, we grind higher and gain ground - and hope that Trump doesn't pull the rug out from under what otherwise looks like a more promising outlook.

Last week's data flow.

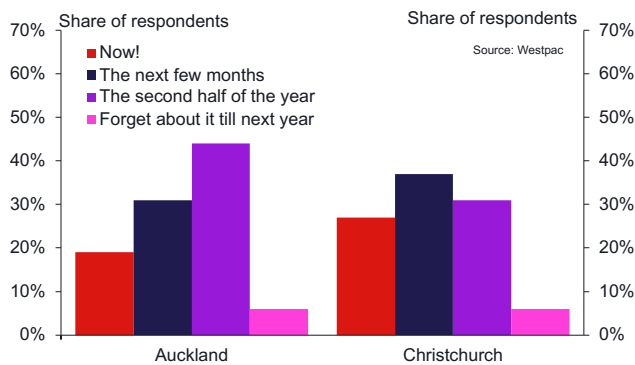
The data flow has been thin of late. We did receive monthly updates on Consumer confidence and filled jobs. The highest profile data was filled jobs which were flat in February, in line with our expectations. The details of the MEI show the mixed nature of the economic recovery. Sectors that are linked to international tourism, such as transport, hospitality and recreational services, have been leading the rebound. Consumer confidence ticked down in March, mirroring the fall back in confidence in our own survey released last week. Concerns about global trade uncertainty may be being reflected in a pull back in consumer sentiment given the recent news flow.

Some feedback from customer discussions.

Over the last few weeks, I have had the opportunity to present to groups of customers in Auckland and

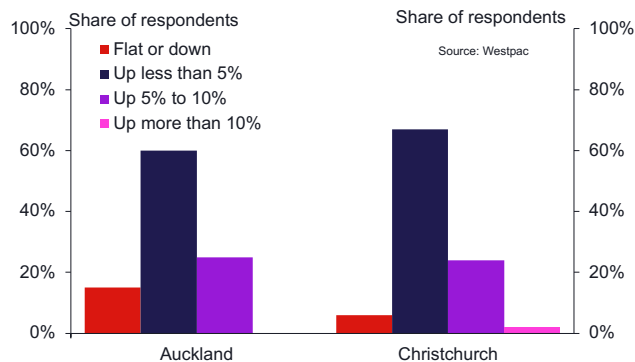
Christchurch on the economic outlook and key themes. As part of these discussion, I polled customers on their views on the outlook. Customers are split on when the best time might be to lock in the best long term mortgage rate with views varying between the next few months (when the RBNZ easing cycle should end) and the second half of the year (when markets may be starting to look forward to the next interest rate cycle).

When will be the best time to fix my mortgage for 2-3 years



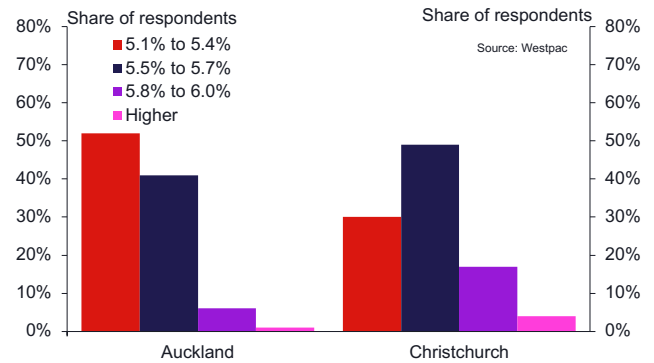
Customers remain circumspect on the outlook for house prices even though market activity has picked up. The majority of customers see house price gains in the 0-5% range in 2025 – somewhat lower than the 6.5% growth we are currently picking.

What will house prices do in 2025?



Similarly, and in line with recent indicators, the labour market is still perceived as weak for a while. Interestingly, Auckland based customers were more optimistic and expect the unemployment rate to peak at or below our current pick of 5.4% whereas Christchurch customers are more pessimistic. That's quite interesting given that on most indicators, Christchurch is performing more strongly than Auckland.

Where will the unemployment rate peak?

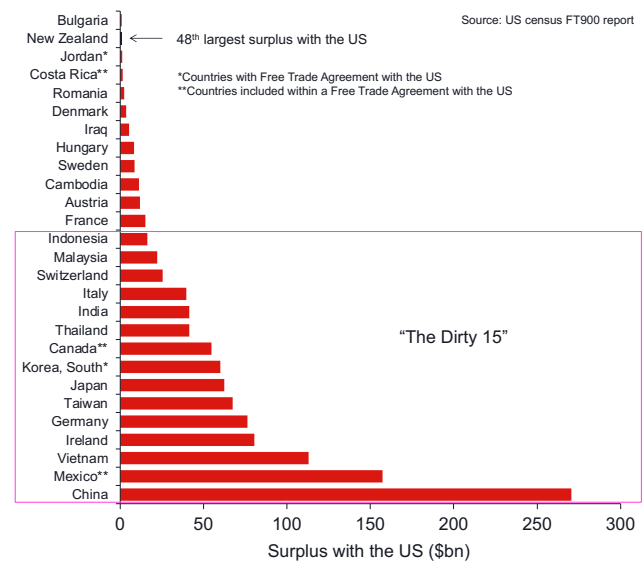


Looking forward.

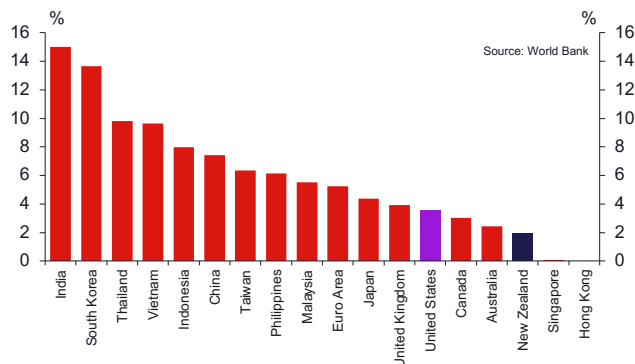
This week the big event will be the announcement of US tariffs. Speculation is this initial round of tariffs will be focused on the “dirty 15” set of countries with large trade surpluses with the US and which also have large tariff and non-tariff barriers to US exports. New Zealand generally compares favourably on these metrics as our trade surplus with the US is very small and our tariff rates are very modest. We do have an exposure via our relatively high level of Value Added Tax.

It's likely that the announcements this week won't directly impact NZ outside of any general tariff applied to all countries (and there was speculation of that in the US press over the weekend). However, we doubt this will be the end of the story as the administration is likely working on sector specific tariffs that could include the agricultural products NZ exports to the US.

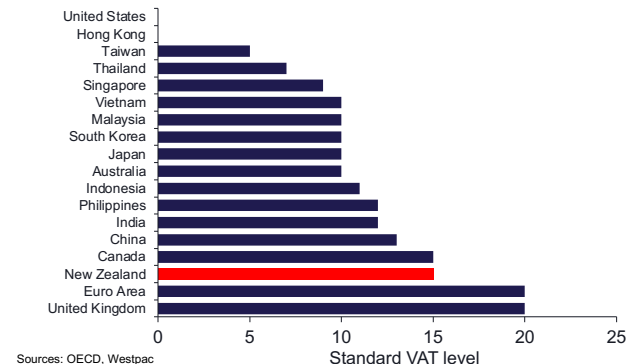
Countries with trade surpluses with the US



Most Favoured Nation tariff rate, NZ main trading partners, 2022



Relative Value Added Tax rates – NZ major trading partners



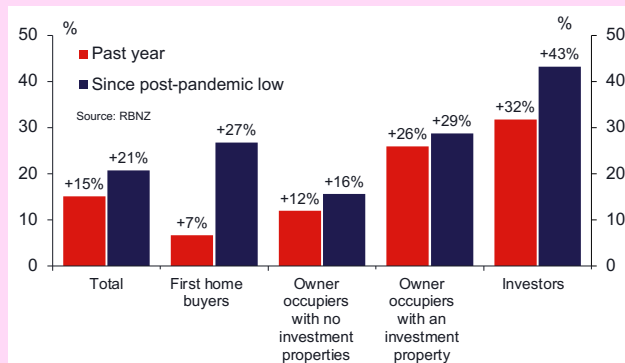
Kelly Eckhold, Chief Economist

Chart of the week.

After a soggy few years, the housing market is heating up again. Sales are now back around average levels and prices have been nudging higher. For now, there are still a relatively large number of homes for sale and the number of days to sell remains high. However, real estate agents are reporting a lift in buyer interest and attendance at open homes. We expect the housing market will continue to firm over the months ahead, with prices forecast to rise by about 6% in both 2025 and 2026, in line with historic averages.

The firming in the housing market has been underpinned by the sharp fall in borrowing costs in recent months. The related improvement in affordability has seen the number of loans to first home buyers rising 27% from the lows we saw in 2023. There's also been a sizeable lift in loans to other owner-occupiers. Lower interest rates have also seen increasing numbers of investors dipping their toes into the market, with the number of loans to investors up more than 40% since 2023. However, in contrast to the number of loans to first homebuyers, the number of loans to investors is still down on the levels we saw prior to the pandemic.

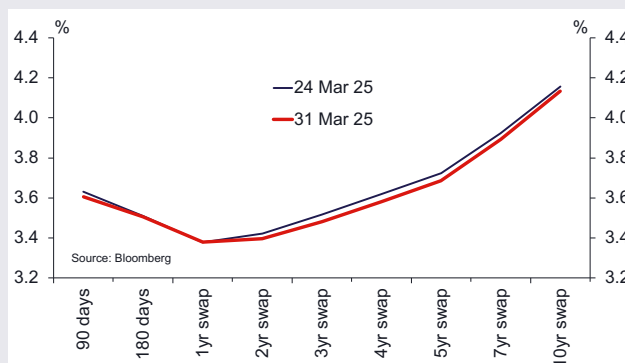
Growth in the number of new home loans



Fixed versus floating for mortgages.

We're forecasting the cash rate to bottom at 3.25% in mid-2025 and see balanced risks around that forecast. Markets have factored more easing than this into mortgage rates and suggest the OCR will bottom closer to 3%. Longer term mortgage rates have fallen – in some cases significantly – and now look attractive to fix for longer periods, particularly in the two- to three-year space. Shorter-term mortgage rates are likely to fall in the near term as the RBNZ delivers further smaller OCR cuts, but would still likely remain above current longer term fixed rates. Fixing shorter than a year is a bet that the OCR bottoms somewhat lower than 3%.

NZ interest rates



Global wrap

North America.

The US rhetoric on tariffs escalated ahead of the expected major announcements on 2 April, dubbed 'Liberation Day'. President Trump announced new tariffs on cars "not made in the US", and 'secondary tariffs' on countries buying oil and gas from Venezuela. The rapid escalation of US protectionism has seen manufacturing sentiment retreat of late – the Richmond Fed Index for March dipped to -4pts, with new orders and employment both weaker.

Of more concern for the market was the Conference Board consumer confidence survey, the headline index falling to its lowest level since early 2021, and expectations at a twelve-year low. Household surveys have also shown a growing concern about the likely inflationary impact of tariffs. And with inflation already starting out on the high side of the Fed's target – the core PCE deflator rose 0.4% in February, with the annual rate at 2.8% – there will be limited room to look through near-term price shocks. St Louis Fed President Musalem warned last week that the "risks that inflation will stall above 2% or move higher in the near term appear to have increased".

Asia-Pacific.

The Australian Federal Budget, prepared on short notice, provided few major surprises, with the more significant announcements likely held back for the campaign ahead of the election which has been scheduled for 3 May. Energy rebates for households were extended for another six months, and a 'top-up' tax cut is planned for 2026 and 2027 alongside spending on essential services and critical infrastructure. These measures are unlikely to materially shift the outlook for the RBA, with this Tuesday's policy decision looking to be pretty clear-cut for no change in the cash rate. Last week's monthly CPI Indicator printed broadly as expected, the monthly trimmed mean measure ticking down from 2.8%yr to 2.7%yr in February.

Europe.

The UK CPI was a touch weaker than expected in February at 0.4% (consensus 0.5%), leaving annual inflation at 2.8%yr compared to 3.0%yr in January. Core inflation edged down from 3.7%yr to 3.5%yr, but services inflation held up at 5.0%yr. While services continued to dominate the headline pulse, the share of components rising beyond the BoE's 2.0% inflation target narrowed to 54.6%.

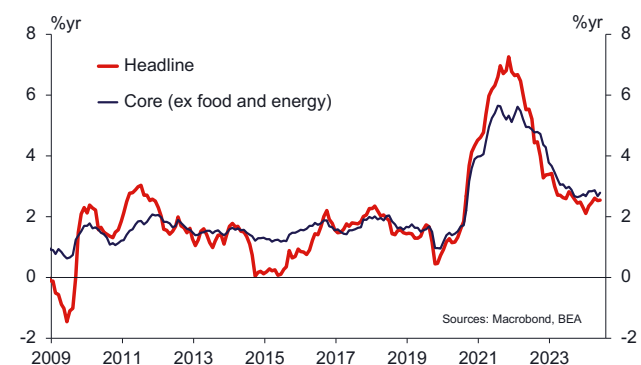
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.1	1.0	2.0	2.2
China	5.2	5.0	5.0	4.7
United States	2.5	2.8	1.7	1.7
Japan	1.9	-0.1	1.2	1.0
East Asia ex China	3.3	4.3	4.1	4.1
India	7.8	6.6	6.5	6.5
Euro Zone	0.4	0.7	0.9	1.3
United Kingdom	0.1	0.7	0.7	1.2
NZ trading partners	3.2	3.2	3.2	3.2
World	3.2	3.3	3.2	3.2

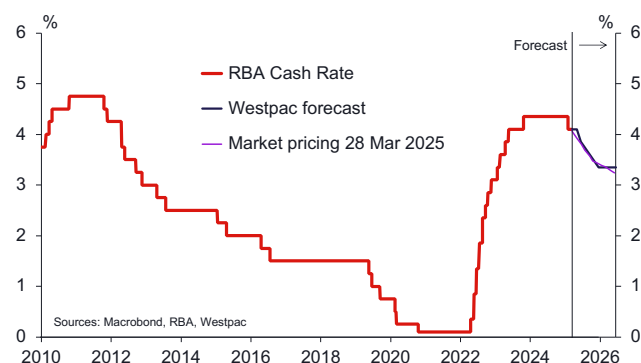
Australian & US interest rate outlook

	28 Mar	Jun-25	Dec-25	Dec-26
Australia				
Cash	4.10	3.85	3.35	3.35
90 Day BBSW	4.13	3.90	3.45	3.55
3 Year Swap	3.68	3.75	3.80	4.00
3 Year Bond	3.76	3.85	3.90	4.05
10 Year Bond	4.46	4.65	4.75	4.80
10 Year Spread to US (bps)	11	15	5	0
US				
Fed Funds	4.375	4.375	3.875	3.875
US 10 Year Bond	4.35	4.50	4.70	4.80

US PCE deflator



RBA Cash Rate



Financial markets wrap

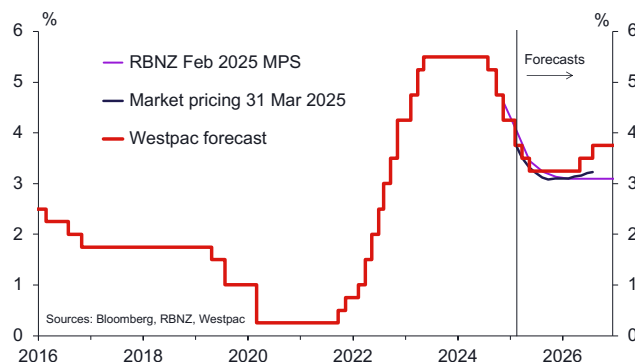
Interest rates.

The NZ 2yr swap rate remains stuck inside a three-month old range of 3.33%-3.65%, and we expect that to continue during the week ahead. Multi-month, though, we see potential for a break higher. The RBNZ's February MPS clearly signalled the trajectory of the remainder of the easing cycle, being 25bp OCR cuts in April and May, and a 60% chance of a final one before year end. However, RBNZ Governor Orr's abrupt resignation means that the next meeting's media release on 9 April will be closely inspected by markets for any subtle shifts in bias. OIS pricing matches the RBNZ's OCR forecast, while Westpac's is slightly high with a 3.25% terminal rate. We continue to expect higher swap rates later this year, since markets have fully priced the remnants of this RBNZ easing cycle and will eventually turn attention to the next cycle – a tightening one. In addition, there's a large pipeline of mortgages due for refixing over the next six months. The main risk to this view is an economic shock offshore, which could require a lower OCR than is forecast. If swap rates do increase this year as we expect, the yield curve's slope is likely to flatten as shorter maturities, such as the 2yr, rise more than longer maturities. Borrowers waiting to hedge their floating-rate liabilities will be faced with a trade-off: the yield curve's slope will flatten, making it more attractive to fix for a longer maturity, but the level of all rates will also likely be higher.

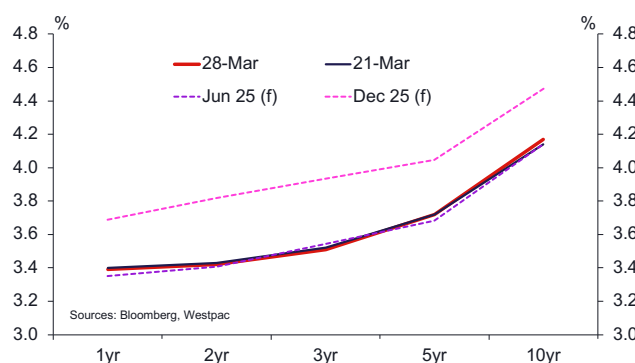
Foreign exchange.

NZD/USD remains rangebound. Over the past week it has stuck in a very narrow 0.5711-0.5763 range, and around the middle of a three-month 0.56-0.58 range. We're watching the 0.5680 level closely, because a break of that would signal a move to 0.5600 during the week ahead, and potentially lower multi-week. The key driver of NZD/USD (and most major exchange rates) at present is the set of policies proposed by the Trump Administration, in particular tariffs. Markets are braced for an announcement on tariffs on 2 April, market impact likely to depend on whether the outcome is more or less severe than market expectations. A severe outcome would be particularly damaging to risk-sensitive currencies such as the NZD, AUD, and CAD. Against that potentially negative backdrop, local factors should provide some support for NZD: NZ economic data momentum, extreme short speculative NZD/USD positioning, and an arguably fully priced RBNZ easing cycle. Looking further ahead to mid-year, we hold a bearish bias and target 0.5500. While the impact of US trade policies is unclear, the most likely outcome will be that global growth will weaken, which should negatively affect trading nations externally-exposed economies such as NZ's.

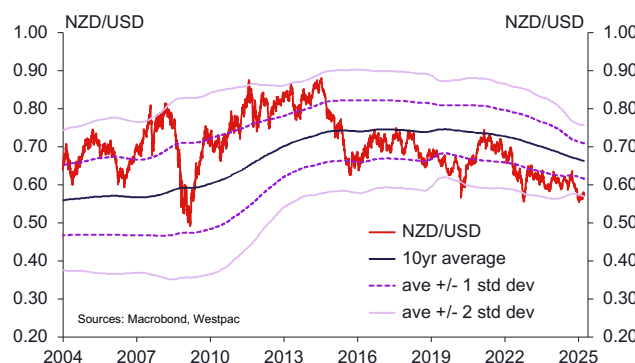
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-25
USD	0.572	0.554-0.582	0.554-0.743	0.639	0.57
AUD	0.910	0.897-0.915	0.873-0.980	0.925	0.87
EUR	0.529	0.523-0.549	0.523-0.637	0.578	0.52
GBP	0.442	0.440-0.459	0.440-0.535	0.498	0.44
JPY	85.6	83.5-89.2	63.7-98.6	82.5	79.4

The week ahead

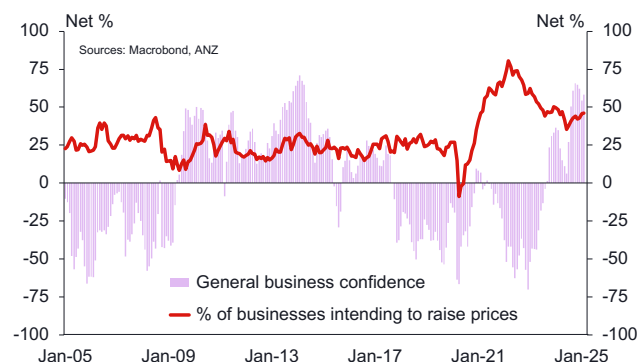
Mar ANZ Business Confidence

Mar 31, Last: 58.4

The February business outlook survey was a mixed bag, with rises and falls across a range of indicators. The general message remains that current conditions are tough, but firms are hopeful about the year ahead. The inflation gauges in the survey were also mixed, with cost pressures easing a little but remaining historically high.

Concerns about global risks and US tariffs have been prominent in recent household confidence surveys, so it will be interesting to see if those concerns start to feature among businesses as well.

Business confidence and pricing intentions

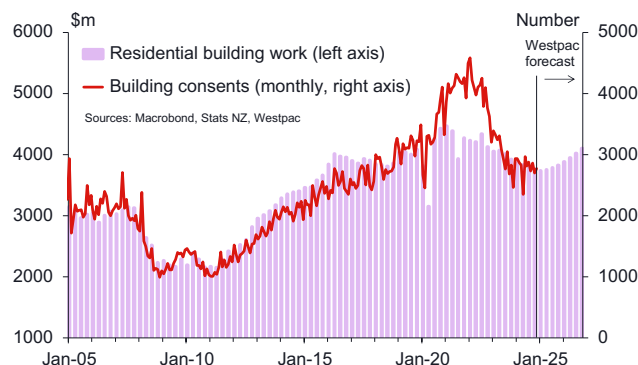


Feb Building Consents

Apr 2, Last: +2.6%, Westpac f/c: +5.0%

We expect a 5% rise in residential building consents in February as earlier softness in the 'lumpy' multi-unit categories reverses. Stepping back from the month-to-month swings, the longer-term trend in consent numbers has found a floor after earlier sharp declines. Annual consent issuance has been running at a little over 33,000 for several months now. We expect that consent issuance will remain around those levels for the next few months before beginning to turn higher through the latter part of the year as the impact of lower interest rates ripples through the housing market. Conditions in the non-residential sector remain mixed, with businesses still cautious about significant new capital expenditure for now.

Residential building and consent numbers



Economic and financial forecasts

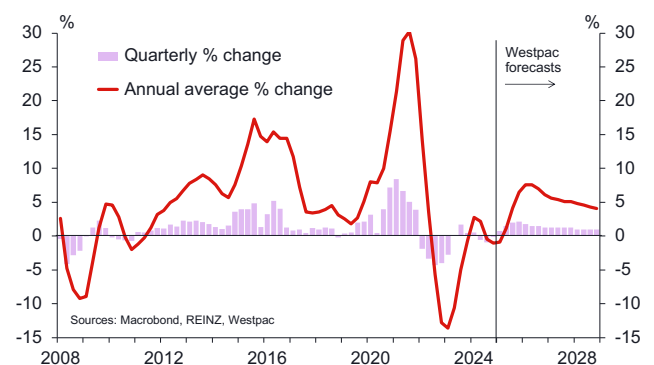
Economic indicators	Quarterly % change				Annual % change			
	Dec-24	Mar-25	Jun-25	Sep-25	2023	2024	2025	2026
GDP (production)	0.7	0.4	0.4	0.8	1.8	-0.5	1.0	3.2
Consumer price index	0.5	0.8	0.2	0.8	4.7	2.2	2.6	2.0
Employment change	-0.1	-0.1	0.1	0.1	2.8	-1.1	0.5	2.1
Unemployment rate	5.1	5.3	5.4	5.4	4.0	5.1	5.3	4.6
Labour cost index (all sectors)	0.6	0.6	0.5	0.5	4.3	3.3	2.2	1.8
Current account balance (% of GDP)	-6.2	-5.5	-4.6	-4.3	-6.9	-6.2	-4.0	-4.5
Terms of trade	3.1	7.1	2.6	-1.1	-10.7	13.6	8.0	1.4
House price index	-0.2	0.8	1.5	2.0	-0.6	-1.1	6.5	6.1

Financial forecasts	End of quarter				End of year			
	Dec-24	Mar-25	Jun-25	Sep-25	2023	2024	2025	2026
OCR	4.25	3.75	3.25	3.25	5.50	4.25	3.25	3.75
90 day bank bill	4.45	3.55	3.35	3.35	5.65	4.45	3.35	3.85
2 year swap	3.64	3.40	3.50	3.65	5.28	3.64	3.80	4.00
5 year swap	3.73	3.70	3.80	3.95	4.85	3.73	4.05	4.25
10 year bond	4.51	4.60	4.70	4.85	5.09	4.51	4.90	4.95
TWI	69.5	67.1	66.2	66.2	70.8	69.5	66.1	67.3
NZD/USD	0.59	0.56	0.56	0.56	0.60	0.59	0.57	0.60
NZD/AUD	0.91	0.91	0.90	0.88	0.93	0.91	0.87	0.87
NZD/EUR	0.55	0.52	0.52	0.52	0.56	0.55	0.52	0.53
NZD/GBP	0.46	0.44	0.44	0.44	0.49	0.46	0.44	0.45

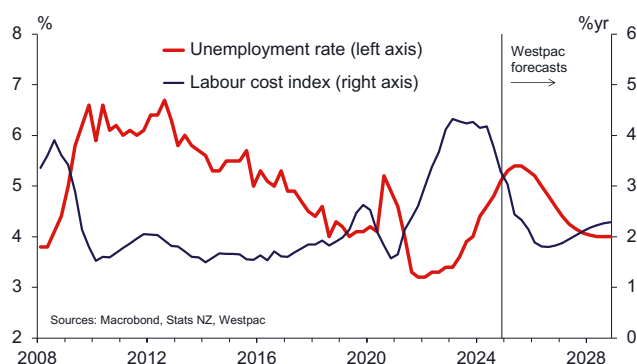
GDP growth



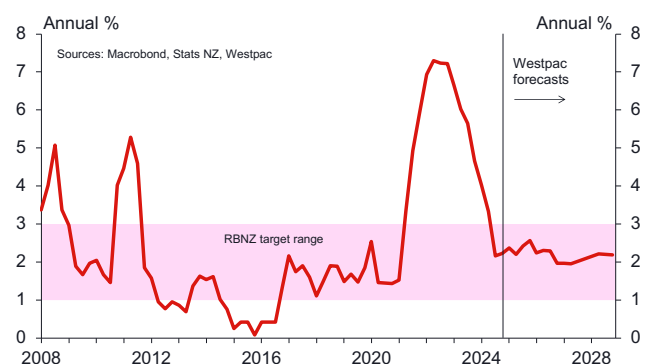
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 31					
NZ	Mar ANZ Business Confidence, index	58.4	–	–	Confidence remains high despite tough conditions.
Aus	Mar MI Inflation Gauge, %ann	2.2	–	–	Provides a general view of risks to inflation.
	Feb Private Sector Credit, %mth	0.5	0.5	0.5	Continues growing at a stable pace.
	Mar CoreLogic Home Value Index, %mth	0.3	–	0.5	Feb rate cut lift continued into March.
Jpn	Feb Industrial Production, %mth	–1.1	2	–	Recovery is on the cards after three negative readings.
Chn	Mar Manufacturing PMI, index	50.2	50.4	–	Broadly neutral business conditions in manufacturing...
	Mar Non-Manuf. PMI, index	50.4	50.6	–	...and services sectors in China.
US	Mar Dallas Fed Manuf. Survey, index	–8.3	–5.0	–	Declined sharply in Feb.
Tue 01					
Aus	Feb Retail Sales, %mth	0.3	0.4	flat	Card data points to a softer month.
	RBA Policy Decision	4.1	4.1	4.1	Policy to remain unchanged after a cut in February.
Jpn	Feb Unemployment Rate, %	2.5	–	–	Set to continue signalling tight labour market conditions.
	Q1 Tankan Large Manufacturers, index	14	12	–	Investment intentions of key importance.
Chn	Mar Caixin Manufacturing PMI, index	50.8	–	–	Broadly consistent with the official PMI survey.
Eur	Mar HICP, %ann	2.3	2.3	–	Eased in February after rising in prior four months.
	Feb Unemployment Rate, %	6.2	6.2	–	Expected to remain at historical lows.
US	Feb Construction Spending, %mth	–0.2	0.2	–	High uncertainty likely to keep growth low.
	Feb JOLTS Job Openings, 000s	7740	7690	–	Lately has been volatile around a stable downward trend.
	Mar ISM Manufacturing PMI, index	50.3	49.8	–	Anticipated to dip back below the neutral level.
Wed 02					
NZ	Feb Building Consents, %mth	2.6	–	5	Annual level has stabilised around 33k to 34k.
Aus	RBA Assist Gov Kent speaking	–	–	–	“RBA’s Monetary Policy Implementation System”.
	Feb Dwelling Approvals, %mth	6.3	–1.5	–3.0	Retracing some of unit surge but underlying up-trend intact.
US	Mar ADP Employment Change, 000s	77	119	–	A noisy indicator for the change in payrolls.
	Feb Factory Orders, %mth	1.7	0.4	–	Orders of durable and non-durable goods.
	Feb Final Durable Goods Orders, %mth	0.9	–	–	Weaker growth beneath the headline increase.
Thu 03					
NZ	Mar ANZ Commodity Prices, %mth	3	–	–	Meat prices to drive 8th consecutive monthly gain.
Aus	RBA Financial Stability Review	–	–	–	A half yearly review of Australia’s financial system.
	Feb Trade Balance, \$bn	5.6	–	5.2	Weaker exports expected to lead to a lower surplus.
	Q1 Job Vacancies, %qtr	4.2	–	–	Monthly indicators suggest another decline is likely
Chn	Mar Caixin Composite PMI, index	51.5	–	–	Has been suggesting positive momentum in the economy...
	Mar Caixin Services PMI, index	51.4	51.6	–	...mainly thanks to positive sentiment in the services sector.
US	Feb Trade Balance, US\$bn	–131	–110	–	Despite the improvement, deficit will remain high.
	Initial Jobless Claims	224	–	–	To remain low, for now.
	Mar ISM Services PMI, index	53.5	53.1	–	Stronger momentum compared to manufacturing.
	Fedspeak	–	–	–	Fed Vice Chair Jefferson’s remarks on the economic outlook.
Fri 04					
Aus	Feb Household Spending Indicator, %mth	0.4	–	–0.7	Soft month for card activity and pull-back in EV sales.
Jpn	Feb Household Spending, %mth	0.8	–	–	Higher wage growth supporting household spending.
US	Mar Non-Farm Payrolls, 000s	151	135	145	We look for job creation to slow a touch as near-term...
	Mar Unemployment Rate, %	4.1	4.1	4.1	...risks from public job cuts weigh in.
	Mar Average Hourly Earnings, %mth	0.3	0.3	0.3	Consistent with 2% inflation.
	Fedspeak	–	–	–	Fed Chair Powell speaks on the economic outlook.

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